



Patchogue-Medford Union Free School District

Review of Special Education Revenues & Expenditures

May 2019



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Board of Education
Patchogue-Medford Union Free School District
241 South Ocean Avenue
Patchogue, NY 11772

Board of Education:

We have been retained to function as the internal auditor for the Patchogue-Medford Union Free School District (hereinafter, "the District"). Our responsibility is to assess the internal control systems in place within the District, and to make recommendations to improve upon possible control weaknesses or deficiencies. In doing so, we hope to provide assurance to the District's Board, management, and residents, that the fiscal operations of the District are being handled appropriately and effectively.

PURPOSE:

One of the many issues impacting school districts has been the rising cost of special education services. The special education population as a percent of the total student population continues to rise in all districts, with special education costs being more difficult to control. Federal legislation established a mandate to provide students with appropriate services and maintenance of effort, yet State funding continues to decrease, which presents Districts with the task of using available resources in the most efficient manner possible. As part of the risk assessment performed at the District during the 2014-2015 school year, we recommended performing a review of the special education processes. The purpose of our review was to assess whether the internal controls within the Special Education and Pupil Personnel Services (PPS) Department are adequate to ensure that the District is properly monitoring special education costs, as well as maximizing potential revenues.

SCOPE:

We first met with the staff of the District's special education department to gain an understanding of the procedures in place for providing, tracking, billing, and paying special education services. We then obtained various data for students receiving special education services. Based on the data, we selected various samples to test whether:

- Amounts input in the System to Track and Account for Children (STAC) for fiscal 2018 were properly calculated and captured all applicable costs;
- Payments for tuition for State-approved schools and Boards of Cooperative Educational Services (BOCES) school were correct;
- Payments to related service providers were correctly calculated and had proper documentation to support the services provided; and
- Appropriate special education costs were properly claimed and remitted to Medicaid.

School districts both incur expenses and generate revenues when providing special education services. Those expenses and revenues are as follows:

Expenses:

- Special education services provided to resident students who are either serviced in-District, or are parentally-placed in parochial schools outside the District boundaries.
- Tuition charges for resident students placed by Committees on Special Education (CSE) in a public school outside the District boundaries, in a State-approved private school, or in a BOCES school.
- Related services expenses for students who receive services such as physical therapy, occupational therapy, and counseling.

Revenues:

- The STAC reimbursements from the State for special education and related services provided to resident students who are serviced within the District, placed in BOCES programs, or those who are placed in other public or State-approved private schools.
- Payments from non-resident students who are parentally-placed in parochial/charter schools within the District and receiving special education services.
- Payments from non-resident students receiving special education services in the District. The District does not currently have such students.
- Medicaid reimbursements for eligible in-District students.

CONCLUSION:

While our review of special education processes indicated that the District has implemented internal controls related to special education costs and revenues, and compliance with District policies and State and Federal regulations, we noted areas where internal controls could be improved.

The detailed results of our review are included in sections I through IV of this report.

I. STAC:

The District can identify and claim State Aid reimbursement for eligible students for all eligible services using an online system known as the STAC. This includes resident students receiving services within the District, through private placements, and through BOCES programs. Federal and State laws require districts to provide special education programs for students with disabilities. Students are referred to a district's CSE for special education services. The CSE arranges for an evaluation of the student's needs and decides if the student should receive special education services. An Individualized Education Program (IEP) is developed for each child determined to need special services based on his/her evaluation, identifying services to be provided. The District utilizes a software application, Frontline (formerly IEP Direct), to enter and maintain information about each student's IEP.

Students may receive special education services from teachers within the District or attend programs in other school facilities such as BOCES, a State-approved private special education school (e.g., Developmental Disabilities Institute), or in another public school. Districts may receive State Aid reimbursement of approved costs per student with the New York State Education Department (NYSED) by utilizing the STAC. Such costs must be equal to or exceed the District's threshold amount, as determined by NYSED. Before payment is made to a district, an Automated Verified Listing (AVL) is generated with information submitted for each STAC, and the district must verify the information on the AVL in the STAC claiming process. Therefore, it is crucial that districts have procedures in place to identify students receiving services who would exceed the

threshold.

Our review of the District's STAC processes is documented below.

- a) **In-District Placements:** As part of our review, we reviewed resident students receiving special education services to determine whether the District properly captured students in the STAC. The District has taken steps to identify those students who may qualify for STAC reimbursement and calculate the costs for services. For example, the District uses specific employee salaries and fringes for each student's calculation and divides costs among actual class sizes, rather than the stated class ratio. We commend the District for its efforts, however we did note areas where the process can be improved to ensure the District is maximizing the amount of revenue it can receive for providing special education services.

Issue #1: We noted 4 students who were included in the STAC for reimbursement, however, not all eligible service costs provided to the student were included in the amount claimed in the STAC. Similarly, we noted 6 students who received eligible services that were excluded from the cost calculation for STAC purposes. One of these students may have exceeded the threshold for inclusion in the STAC had the District included all eligible costs. The other 5 students would not have exceeded the threshold even with the additional costs included.

Risk: The District may not be including all eligible service costs in each student's cost calculation to maximize the amount of reimbursement through the STAC for special education services provided for in-District, resident students.

Level: Moderate - High

Recommendation: To ensure the District is capturing all costs associated with students who receive special education services and maximizing its reimbursement from NYSED, we recommend that the District develop documented procedures to identify potential in-District resident students who should be included in the STAC, and to ensure all eligible costs associated with providing special education services are also included. We also recommend the District maintain adequate documentation to support situations where services cannot be provided.

Further, we noted that there is a new employee performing the STAC calculations. As the deadline for inputting costs into the STAC is June 30, 2019 for the 2017-2018 school year, PPS is investigating and adding costs as time allows. We recommend the staff in PPS receive training to enhance their understanding of the STAC procedures.

Management's Response: The District will prepare calculations for all in-District students that receive eligible services to ensure that students eligible for excess cost aid are properly reported in the STAC. The District will develop written procedures documenting how the calculations are prepared, and how the department will cross reference invoices to the STAC calculations to ensure that all eligible services are included on the STAC forms.

The District will continue using the services of a third party to continue to train the employees involved in the STAC reporting process in order to maximize state aid and

enhance their understanding of the STAC filing process.

- b) **Public and State-approved Private Placements:** As part of our review, we assessed whether the District is paying the appropriate costs related to the education of resident students with disabilities who are CSE-placed in another public school or in a State-approved private school. In addition, we reviewed whether applicable students are properly captured in the STAC for State Aid.

Based on a CSE meeting, a student may be placed in another public school district to receive special education services if that district has specific resources that would be more cost effective for the District to utilize rather than implementing the program in-house. The district of residence (DoR) is billed by the district of location (DoL) for the special education services provided. The tuition costs can be based either on the estimated rate established by the NYSED or actual costs incurred by the DoL. The State will issue both prospective and reconciled rates for each school year. If the school's rates are modified upward or downward by NYSED, the parties are permitted to adjust the tuition payments so that the District will have paid in accordance with the approved rates applicable to the respective year tuition.

We selected 6 (5 private, 1 public) students receiving special education services through State-approved private schools or through other public schools during the 2017-2018 school year. We verified whether a contract was executed with either the DoL or the State-approved school. We then confirmed whether services billed to the District were in accordance with the student's IEP, and that the District was billed for the correct tuition rate. We also confirmed whether the District properly used the STAC to claim State Aid for the correct amount for the school year, and the extended school year and summer transportation, if applicable. **No exceptions were noted.**

- c) **BOCES Placements:** Based on a CSE meeting, a student may be placed in a BOCES school to receive special education services. When BOCES invoices are received, they are reviewed by the special education staff to ensure that invoiced amounts are correct and agree to what is mandated on each student's IEP.

We selected 15 students attending BOCES during the 2017-2018 school year and verified whether the costs billed to the District agreed to the contracted rates to determine whether charges for tuition and other services were correct. We then verified whether the services billed were listed on the student's IEP. Finally, we verified whether the District claimed State Aid on the STAC all eligible costs billed to the District, including the extended school year and summer transportation, if applicable.

Issue #2: We noted 1 student who was not accurately included in the STAC for State Aid claims. The student was incarcerated for part of the year and the months after the student returned were not included in the STAC.

Risk: The District may not be maximizing the amount of reimbursement through the STAC for special education services provided by BOCES for in-District students.

Level: Moderate - High

Recommendation: To ensure that the District is capturing all costs associated with students who receive special education services, we recommend that the District develop documented procedures to identify resident students attending BOCES facilities that are eligible to receive services and to ensure all costs associated with providing special education services have been included the STAC.

Management's Response: The District will include in the documented procedures, a staff member that will be responsible for checking students listed on BOCES and other private placement invoices against the list of students that have been STAC'ed to ensure that all eligible students are included in the STAC.

Issue #3: We noted 2 students who did not receive services in accordance with his/her IEP. Through discussions with PPS, one of those instances occurred because the student was not in the country for a specified time period and the parent did not attend the training that was offered during 2017-2018; however, support was not adequately documented in the District's files.

Risk: The District may not be in compliance with State regulations surrounding IEP implementation.

Level: High

Recommendation: To ensure the District is in compliance with State regulations, we recommend the District develop documented procedures to ensure each student receives all services listed on his or her IEP and that documentation be maintained in District files should those services not be provided. In addition, the District should ensure BOCES is communicating when services cannot be provided, so that the District can follow-up with the student's family.

Management's Response: The District will develop written procedures for documenting services provided. Invitations to parent trainings will be used as documentation for implementation and scheduling of parent training.

II. PARENTALLY-PLACED (Revenue & Expenses):

- a) **Expenses:** Actual costs related to CSE administration, evaluations, and special education services provided to a non-resident student may be recovered from a student's DoR. In addition, the proportionate share of IDEA Federal funds and applicable State Aid received by the DoL should, in general, be credited to the DoR. The District is billed by other educating districts for Patchogue-Medford students who are parentally-placed and receiving special education services in parochial schools outside of the District. Contracts, though not required by school law, are generally executed at the beginning of the fiscal year with districts servicing Patchogue-Medford students. The District ensures the student is a Patchogue-Medford resident, and the detailed bills are reviewed by personnel in PPS prior to the District processing payment to other districts. We performed testing to determine whether the District is paying appropriate costs related to the education of Patchogue-Medford students parentally-placed in parochial schools outside the District.

We selected all 9 school districts that were billing the District for students receiving special education services in parentally-placed parochial schools during the 2017-2018 school year. The District received invoices for these services from the DoL at the end of the school year. We selected 9 students from those invoices to evaluate whether the amounts charged agreed with the contract, the invoice had supporting documentation attached, the services provided were on the student's individualized education services program (IESP), and the District was properly credited for any proportionate share of Federal funds and/or State Aid, if applicable. **No exceptions were noted.**

- b) **Revenue:** The District has two parochial schools located within its school district boundary. The District is permitted to bill the DoR for non-resident students attending these schools and receiving special education services (similarly to how the District is billed by other school districts). We performed testing to assess whether the District is accurately billing the DoR for non-resident, parentally-placed students in parochial or charter schools within the District.

We selected all 11 of the non-resident students who attended a parochial school within District boundaries in the 2017-2018 school year. We determined whether the District invoiced the DoR for the correct charges and the special education services provided agree with the services on the student's IEP.

Issue #4: During testing, we noted 2 students in which their invoices did not include the cost for speech therapy and/or physical therapy services. Through discussions with PPS, one of those students did not receive the services because the services were unable to be scheduled during 2017-2018; however, support was not adequately documented. As a result, the District has offered that student these services during the 2018-2019 school year.

Risk: The District may not be maximizing revenue for students parentally-placed in non-public schools within the District.

Level: Moderate - High

Recommendation: To ensure that the District is maximizing revenue, we recommend that the District develop documented procedures to ensure all services provided to non-resident students are identified and billed, and if such services cannot be provided, the reasoning has been timely and adequately documented in the District's files.

Management's Response: The District will include in the documented procedures, a staff member assigned to cross reference the invoices from the vendors to the District invoices prepared for the non-resident students to ensure that revenues are maximized.

III. CONTRACTED RELATED SERVICE EXPENSES:

Related services include speech therapy, occupational therapy, physical therapy, and rehabilitation counseling, as well as other services to enhance a student's ability to function in an education program. Related services may be among those services that are recommended for a student at a CSE meeting. Once recommended, it is the District's responsibility to ensure that mandated services, as noted on a student's IEP, are being provided either through District

employees or through contracted providers. If related services are provided by outside vendors, the District must execute a contract with the vendors. We tested related services to assess whether rates billed on the invoices agreed to vendor contracts.

We selected the 6 vendors who provided related services during the 2017-2018 school year. A total of 20 invoices were selected and a total of 40 billed services from those invoices were examined. We verified whether the rates for services charged agreed to the rates listed in the vendor's contract. We also verified whether the invoices were mathematically accurate and whether appropriate documentation to support the charges was available (ex. Service/session notes, attendance, etc.). **No exceptions were noted.**

IV. MEDICAID REIMBURSEMENT:

The Medicaid claims reimbursement process is a complex process with a myriad of ever-changing regulations which all districts must adhere to. School districts receive Medicaid reimbursement for certain health support services provided to eligible students with an IEP. The process requires monitoring changes in regulations and effective communication of such changes to staff to ensure that correct procedures are followed to claim Medicaid reimbursements. Reimbursable services include, but are not limited to, physical therapy, occupational therapy, and speech therapy services. The New York State Department of Health (DOH) has developed a monthly fee schedule for such services. Districts receive reimbursement based on the approved amounts, with the State withholding its share from a district's State Aid.

The District uses a software application to enter progress notes. Requirements for submitting a Medicaid reimbursement claim include having a signed parental consent form to bill Medicaid, medical prescriptions establishing medical necessity, and contemporaneous session notes from providers, with information detailing Current Procedural Terminology (CPT) codes and session start and end times. The District is informed of any missing items. Unless all the necessary criteria are met, a Medicaid claim will not be processed for a particular student.

We assessed whether the District is in compliance with current Medicaid regulations and is claiming for all potential students and services. Based on our testing, we noted where certain processes could be improved within the District to ensure Medicaid claims are processed correctly.

Issue #5: We noted during our testing that 1 of the students received speech therapy services from a provider that was not Medicaid eligible. Thus, the District was unable to bill Medicaid for this otherwise eligible service.

Risk: The District may not be maximizing its Medicaid reimbursement claims for eligible students.

Level: Moderate

Recommendation: We recommend that the District ensure Medicaid-eligible students are receiving services from providers that are properly licensed.

Management's Response: The District will develop written procedures documenting the Medicaid services process which will include procedures to review the list of providers used for Medicaid eligible services to determine if the providers are Medicaid eligible. This will

ensure that the District maximizes the Medicaid reimbursements received. The District will review the Medicaid eligible service provider list on an annual basis. The District will also review the Federal exclusions list to ensure that the providers used are not on the exclusion list.

Auditor's Comment: NYSED states "it is the responsibility of school districts...to verify NYS licensure and current registration [of providers] at least on an annual basis. In addition, school districts...are responsible for checking the Federal and State exclusion lists." The Office of the Medicaid Inspector General (OMIG) recommends that the exclusion list be checked every 30 days. While our testing did not disclose any providers on the exclusion list. The District should ensure it is complying with State and Federal regulations.

V. FEDERAL IDEA GRANTS & ASEPS:

The District receives Federal funding under Part B of the IDEA Section 611 and Section 619 to assist with the excess costs of providing special education to children with disabilities. Funds may be used to supplement State, local, and other Federal funds, but not supplant those funds. Districts must apply for these grants by submitting budgets, and they must also ensure that expenditures of grant funds adhere to the purpose of the IDEA. In addition, Districts may disburse Section 611 and Section 619 funds to Approved Special Education Programs (ASEPs) which serve one or more students with disabilities placed by the District. In order to be eligible for these "flow-through" funds, ASEPs are currently submitting Special Education Data Collection, Analysis and Reporting (SEDCAR) forms to the District, entering into contracts with the District, and providing final expenditure reports supporting how vendor funds were spent.

During our discussions with the District, it was noted they are properly monitoring flow-through funds to ASEPs by receiving proposed budgets and final expenditure reports from the ASEPs. We also noted that the grant contains costs for services that cannot be included in the STAC. **No exceptions were noted.**

We would like to thank the District for the cooperation and professionalism extended during our testing.

We understand the fiduciary duty of the Board of Education, as well as the role of the internal auditor in ensuring that the proper control systems are in place and functioning consistently with the Board's policies and procedures.

Should you have any questions regarding anything included in our report, please do not hesitate to contact us at (631) 582-1600.

Sincerely,



Cerini & Associates, LLP
Internal Auditor